

Nicor Gas Building Consolidation

December 20, 2007



Recommendation



- Consolidate the following facilities into a single facility: Central Distribution Center (“CDC”), Elgin Weld School, Meter Shop, Technical Services and Training.

Background

- Nicor Gas currently has five operational facilities that can potentially be consolidated into one facility. A consolidation would potentially bring cost savings and operational efficiencies. The facilities considered to be good candidates for consolidation are:
 - CDC
 - Elgin Weld School
 - Meter Shop
 - Technical Services (a.k.a. Engineering Services)
 - Technical Training
- The lease at the CDC is expiring on March 1, 2009 and an extension would need to be negotiated, if consolidation does not occur. Consequently, the CDC's lease termination affords the company an opportunity to evaluate the use of its facilities.

Background

- Potential Benefits of Consolidation are:
 - Reduction in the number of facilities Nicor Gas has to manage
 - Reduction in operating and capital expenditures in maintaining and operating separate facilities
 - Synergies of these departments in close proximity to each other (business efficiencies)
 - Enhancing the future use of or sale of existing own property:
 - Elgin property - relocation of Weld School leaves property as a pure reporting location that can be more easily relocated in future based on customer service needs – potential land sale
 - Technical Training – demolition of radio tower and Training relocation - potential land sale
 - Meter Shop – relocation of meter shop – potential land sale
 - Technical Services – possibly maintain as a result of adjacency to main Nicor Gas campus – use for projects/training
- Potential Challenges of Consolidation are:
 - Change management
 - Minimize business impact
 - Employee morale

Project Timeline

- This project can be approached as having four distinct phases:
 - Phase One – Proof of Consolidation Concept - determination of business requirements, high level review of commercial property market, identification of space requirements, financial analysis support (Completed)
 - Phase Two – Site and Resource Identification - Engagement of real estate firm to identify specific properties, architectural design/layout, development of project charter, internal resources identification, further financial analysis support – decision on lease versus buy (1st Quarter/early 2nd Quarter 2008)
 - Phase Three – Contract and Move Planning Phasing – Completion of architectural design/layout, contract signing, development of move detail, logistics and departmental phasing of move. (2nd Quarter/early third Quarter 2008)
 - Phase Four – Moving – Physical movement of business units (3rd Quarter/early 4th Quarter 2008)

Phase Two – To Dos

• To Dos:

- Engage CB Richard Ellis to identify lease and buy to build to suit properties. First Quarter 2008 Decision lease versus buy.
- Engage an architect and others to design a facility once property is identified.
- Identify a project owner/manager who can carry this project forward to move-in.
- Approach CDC lease holder and notify them of move (March 1, 2008) and request extension of current lease, if deemed necessary.
- Complete the preliminary financial analysis

Preliminary Financial Analysis

- Cases considered:

- Lease 130,000 – 150,000 sq. ft.
- Build 130,000 – 150,000 sq. ft. w/ 9 acres purchased land
- Build 130,000 – 150,000 sq. ft. w/ 9 acres existing land

- Key Assumptions:

- Lease and build out rates from CBRE industry estimates
- Operating and tax expenses from CBRE industry estimates
- Utilities cost estimated from 2006 actual
- Land sale proceeds estimated from Real Estate department
- One time project costs estimated
- Status Quo estimates based on 2006 O&M and recent capital project expenses
- End of term asset valuation based on estimated sale price and end of operations
- Space requirement needs identified by associated Business Units
- Potential locations being considered are plus or minus six miles of: 1) CDC, 2) I-55 Corridor (Bolingbrook/Joliet) and I-88 (Peace Road)
- Financial Analysis is preliminary and will change as actual costs and potential savings are updated and obtained

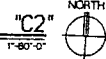
Preliminary Financial Analysis

- Preliminary Results:
- Short Term (10 yr):
 - Lease is 750K more than status quo
 - Build and purchase is 500K more than status quo
- Long Term (20 yr):
 - Lease is 700K more than status quo
 - Build and purchase is 300K less than status quo
- Notes:
 - Build and purchase breakeven with status quo is at about 12yrs.
 - Results consider current space equivalent requirements of 130,000
 - Results do not include the sale of existing facilities

NICOR GAS FACILITY CONSOLIDATION

PRELIMINARY SITE PLAN- "C2"

SCALE:



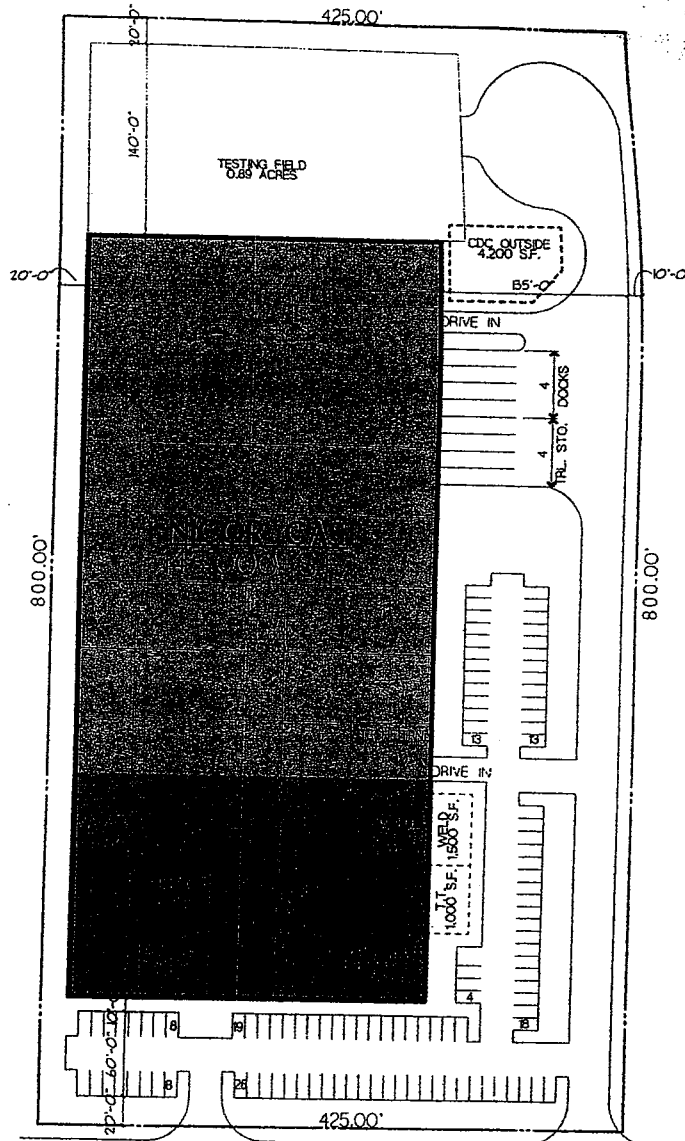
HARRIS ARCHITECTS INC.

4801 SHERRON AVENUE PALATKA, ILLINOIS 60077-1116 (815) 203-1116

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SITE DATA

SITE AREA (±7.81 AC.) 340,000 S.F.

NICOR GAS:

CDC 62,512 S.F.
WELD 5,216 S.F.
ENG. SERVICES 7,500 S.F.
METER 33,425 S.F.
TECH. TRAINING 18,800 S.F.
COMMON 4,685 S.F.
INITIAL EXPANSION (10%) 13,000 S.F.
TOTAL AREA 140,137 S.F.

DRIVE-IN DOORS

2

TOTAL EXTERIOR DOCKS

4 DOCKS

TRAILER STALLS

4

PARKING

PARKING PROVIDED 109 CARS

CLEAR HEIGHT

32'-0"

FACILITY DATA

	CDC	WELD	ENG. SERVICE	METER	TECH. TRAINING	TOTALS:
OFFICE (ENCLOSED)	2,572 S.F.	5,216	7,500 S.F.	10,225 S.F.	9,400 S.F.	34,912 S.F.
WAREHOUSE	58,940 S.F.	-	-	23,200 S.F.	7,400 S.F.	90,540 S.F.
COMMON	-	-	-	-	-	4,685 S.F.
INITIAL EXPANSION	-	-	-	-	-	0
BUILDING TOTAL:	62,512 S.F.	5,216 S.F.	7,500 S.F.	33,425 S.F.	16,800 S.F.	130,137 S.F.
FUTURE GROWTH	-	-	-	-	-	
						143,000 S.F.
OUTSIDE (SITE)	4,200 S.F.	1,500 S.F.	-	-	1,000 S.F.	6,700 S.F.
TESTING (SITE)	-	-	-	-	-	.89 ACRES

NICOR GAS FACILITY CONSOLIDATION

PRELIMINARY SITE PLAN- "C"
SCALE: 1"=80'-0"

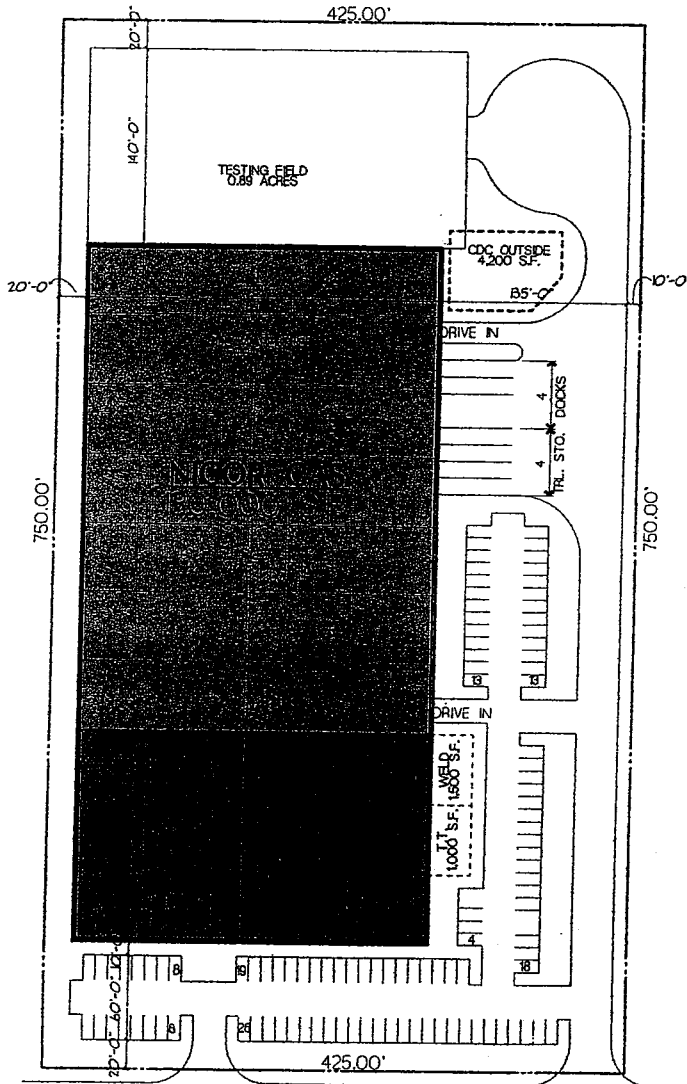


HARRIS ARCHITECTS INC.
4801 EVERSON AVENUE PALATKA, ILLINOIS 60067-7418 (847) 303.1155

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11-19-07



SITE DATA

SITE AREA (±7.32 AC.)	±318,750 S.F.
NICOR GAS:	
CDC	62,512 S.F.
WELD	5,216 S.F.
ENG. SERVICES	7,500 S.F.
METER	33,425 S.F.
TECH. TRAINING	16,800 S.F.
COMMON	4,685 S.F.
INITIAL EXPANSION (03)	0 S.F.
TOTAL AREA	130,137 S.F.

DRIVE-IN DOORS	2
TOTAL - EXTERIOR DOCKS	4 DOCKS
TRAILERS	4
PARKING PROVIDED	109 CARS
CLEAR HEIGHT	32'-0"

FACILITY DATA

	CDC	WELD	ENG. SERVICE	METER	TECH. TRAINING	TOTALS:
OFFICE (ENCLOSED)	2,572 S.F.	5,216	7,500 S.F.	10,225 S.F.	9,400 S.F.	34,912 S.F.
WAREHOUSE	59,940 S.F.	-	-	23,200 S.F.	7,400 S.F.	90,540 S.F.
COMMON	-	-	-	-	-	4,685 S.F.
INITIAL EXPANSION	-	-	-	-	-	0
BUILDING TOTAL:	62,512 S.F.	5,216 S.F.	7,500 S.F.	33,425 S.F.	16,800 S.F.	130,137 S.F.
FUTURE EXPANSION	-	-	-	-	-	0
OUTSIDE (SITE)	4,200 S.F.	1,500 S.F.	-	-	1,000 S.F.	6,700 S.F.
TESTING (SITE)	-	-	-	-	-	.89 ACRES